



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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**12 VAC 30-135 – Waivered Services: Childrens’ Mental Health Waiver**  
**Department of Medical Assistance Services**  
July 27, 2007

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### **Summary of the Proposed Amendments to Regulation**

The proposed regulations will allow Medicaid to provide funding for intensive community-based services for eligible children and youth who have been in a Psychiatric Residential Treatment Facility for ninety or more days.

### **Result of Analysis**

The benefits likely exceed the costs for all proposed changes.

### **Estimated Economic Impact**

Virginia is one of the 10 states awarded a Psychiatric Residential Treatment Facility (PRTF) Demonstration Grant from the Centers for Medicare and Medicaid Services. The proposed regulations will establish the same programmatic rules that apply to existing community-based programs for the new Children’s Mental Health Waiver program.

The new program will provide intensive community-based services for eligible children and youth. Eligible population includes individuals under 21 years of age who: 1) are found to require PRTF level of institutional care, 2) have been in PRTFs for 90 or more days, 3) continue to meet criteria for institutional care, 4) meet applicable financial eligibility criteria, 5) require one or more waiver services in order to function in the community, and 6) exercise freedom of choice by choosing to enter the waiver program in lieu of receiving institutional care.

In addition to all of the usual community services, the new program will provide respite services, in-home residential supports, companion services, training and counseling services for unpaid care givers, environmental modifications, consultative clinical and therapeutic services, and service facilitation to provide sufficient supports to keep the child in the community.

One of the primary effects of the proposed program is enhancing the chances of children with serious mental disturbances to live in their community. Living in the community is expected to promote independence, functioning in the community, school attendance, which are likely to contribute to a better overall mental health status. Also, the proposed program is voluntary. The voluntary nature of the program helps ensure that the program results in net benefits as individuals would be taking advantage of this option only if it is beneficial to them.

Another significant economic effect is the expected fiscal savings. According to Department of Medical Assistance Services (DMAS), the average cost of providing care in an institution for these individuals is about \$47,000 per child<sup>1</sup>. On the other hand, the estimated average cost of providing care to the same individuals in their community under the proposed program is about \$30,000 per child. Thus, on average, for a recipient participating in the program, we can expect to save approximately \$17,000 in terms of avoided costs of institutional care. DMAS anticipates, once fully functional, the program will serve approximately 300 recipients per year. At this level of participation, the annual fiscal savings would be about \$5.1 million. Since approximately one half of the Medicaid funds are provided by federal government, the Commonwealth's fiscal savings would be about \$2.55 million.

The proposed program is also expected to have significant distributional economic effects among the Medicaid providers. As individuals move from PRTFs to living in their communities the mix of services provided will change. PRTFs are expected to experience a reduction in their Medicaid reimbursements. On the other hand, providers of usual community services such as intensive in-home services, therapeutic day treatment services, crisis intervention and stabilization services, etc and community support services such as respite services, companion services, environmental modifications, etc are likely to experience an increase in their revenues from Medicaid. However, the adverse effect on revenues of PRTFs' could be somewhat mitigated if they choose to start providing the newly covered services under the proposed program.

In addition, the proposed program is expected introduce approximately \$247,000 in administrative costs associated with two full time equivalent positions, additional programming costs of the agency's information systems, travel expenses, and office supplies.

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<sup>1</sup> This estimate is based on 166 days of average length of stay.

Moreover, localities are expected to see some savings as a result of the program. Under the proposed program, localities would not have to provide local matching funds for foster care children for their care in their communities.

Finally, it should be noted that the expected savings from the proposed program will result in approximately \$2.55 million in federal funds not coming into the Commonwealth which could have a contractionary economic effect on the overall economic activity, all things being equal.

### **Businesses and Entities Affected**

The proposed regulations are estimated to primarily affect approximately 300 eligible children with mental disorders and their families. Approximately 25 existing PRTFs are likely to experience a reduction in their reimbursements while the providers of usual community services and community support services are likely to enjoy an increase in their revenues.

### **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

### **Projected Impact on Employment**

Expected reduction in the revenues of existing PRTFs' will likely reduce their demand for labor while the expected increase in usual community services and community support services as well as needed additional administrative positions will likely increase demand for labor.

### **Effects on the Use and Value of Private Property**

Expected reduction in the revenues of existing PRTFs' will likely reduce their asset values while the expected increase in usual community services and community support services will likely increase their asset values.

### **Small Businesses: Costs and Other Effects**

All of the affected providers of PRTF services, usual community services, and community support services are believed to be small businesses. Thus, all of the economic effects discussed above apply to them.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

There is no known alternative that would have less adverse effect on PRTFs while achieving the goals of the proposed regulations.

## **Real Estate Development Costs**

The proposed regulations are not expected to have any effect on real estate development costs.

## **Legal Mandate**

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.